

Brief Description of the Windfall Profits Rebate Act of 2005 (S. 1631)

Senator Dorgan recently introduced the Windfall Profits Rebate Act of 2005 that would impose a temporary profits tax on crude oil and use the revenues to provide a rebate to American consumers to help offset the higher cost of oil and gasoline products.

Windfall profits tax on crude oil

Specifically, this legislation imposes a 50-percent excise tax on the windfall profits earned by major integrated U.S. oil companies on the sale or constructive sale of all barrels of taxable crude oil derived from existing wells during the tax year. For this purpose, windfall profits mean the amount that a barrel of taxable crude oil sold or constructively sold by such companies exceeds \$40 per barrel. The \$40 a barrel windfall profits benchmark price is adjusted annually for inflation.

The windfall profits excise tax imposed under this bill is reduced dollar for dollar by intangible drilling and development costs incurred by integrated oil companies in the exploration and development of new sources of domestic oil and gas, for investments in certain renewable facilities and the production of renewable fuels such as ethanol and biodiesel as well as for amounts paid by such companies to increase their domestic refinery capacity. Under the bill, any windfall profits taxes paid would be considered a cost of doing business and allowed as a deductible expense for purposes of determining a paying company's income tax liability.

The Secretary of the Treasury is required to issue any rules that are needed for the withholding and deposit of the windfall profits tax. For purposes of this legislation, crude oil includes crude oil condensates and natural gasoline but generally excludes any newly discovered oil produced from a well drilled after the date of enactment.

The windfall profits tax applies to crude oil sold or constructively sold during the three-year period beginning on the date of enactment of this bill.

Energy consumer rebate

The annual revenues collected from the profits tax is returned to individual taxpayers in the form of a rebate. The Treasury Secretary shall send a rebate check to each taxpayer no later than March 1 of the next calendar year. The rebate is not available to taxpayers claimed as dependents by another taxpayer, by estates or trusts, or by any nonresident alien individuals.